European Fund for Sustainable Development

**In a nutshell**
The European Fund for Sustainable Development (EFSD) is one of the EU financial instruments that promote a pro-active development aid policy. It is part of the complex European external investment plan to support investments primarily in the EU neighbourhood and Africa. The EFSD applies the same financial model as the European Fund for Strategic Investments. By 2020, it is expected to generate €44 billion in investments (based on an initial EU contribution of €4.1 billion) to help create jobs and economic opportunities, address the socio-economic causes of migration, and contribute to the achievement of the UN sustainable development goals.

**EU's Multiannual Financial Framework (MFF) heading and policy area**
Heading 4 Global Europe
International economic and financial affairs (01 03 08)

**2017-2020 total amount programmed (in current prices and as a % of total MFF)**
Commitments: €350 million (0.032 %)

**2018 budget (in current prices and as a % of total EU budget)**
Commitments: €25.0 million (0.016 %)
Payments: €25.0 million (0.017 %)

**2019 budget (in current prices and as a % of total EU budget)**
Commitments: €25.0 million (0.015 %)
Payments: €25.0 million (0.017 %)

**Methods of implementation**
Direct management (European Commission)

**In this Briefing:**
- EU role in the policy area: legal basis
- Objectives of the EFSD
- Funded actions
- Assessment of the EFSD
- Other EU programmes and actions in the same area
EU role in the policy area: legal basis

The European Fund for Sustainable Development (EFSD) is an integrated financial package that supports investments in Africa and the EU’s neighbouring countries to help achieve the sustainable development goals laid down in the UN 2030 Agenda for Sustainable Development. It was established with Regulation (EU) No 2017/1601 of 26 September 2017 (the EFSD Regulation), which is based on Articles 209(1) and 212(2) of the Treaty on the Functioning of the European Union.

In 2016, the European Commission announced the launch of its European external investment plan (EIP) in the context of the new partnership framework with third countries and the European agenda on migration. The EIP aims to support investment in EU partner countries, in part by removing existing barriers to investment and by scaling up the effect of investments made so far.

Objectives of the EFSD

The EFSD is the investment arm of the EIP and the first of its three pillars, focused on financing (expertise and dialogue being the remaining two). The financing pillar comprises blending (a mix of existing loans and grants) and a dedicated financial guarantee. The expertise pillar focuses on technical assistance to enable investors and businesses to develop bankable projects, while the dialogue pillar centres on improving the business environment and the investment climate in partner countries.

The EFSD was designed to promote investment in EU partner countries, especially fragile ones, by making financing capacity in the form of grants, guarantees and other financial instruments available to eligible counterparts. It seeks furthermore to increase access to financing, primarily in Africa and the European neighbourhood countries.

The EFSD is part of the EU development policy. Investment is applied inter alia to address specific socio-economic root causes of migration, foster the sustainable reintegration of migrants returning to their countries of origin, and strengthen transit and host communities. As well as helping achieve the goals of the UN 2030 Agenda, the EFSD also seeks to contribute to the implementation of the Paris Agreement on Climate Change. The fund’s strong environmental focus requires that 28 % of its financing be invested in measures related to climate action, renewable energy and resource efficiency.

Five investment windows were identified shortly after the launch of the EFSD:

- sustainable energy and connectivity;
- financing of micro-, small and medium-sized enterprises (MSMEs);
- sustainable agriculture, rural entrepreneurs and agroindustry;
- sustainable cities;
- digitalisation for sustainable development.

In 2018, 28 guarantee tools were developed in five EFSD guarantee priority areas (roughly corresponding to the above investment windows), each with its own lead financial institution. These areas are as follows: 1. financing of MSMEs and agriculture (11 guarantee tools), 2. sustainable energy and connectivity (eight guarantee tools), 3. sustainable cities (three guarantee tools), 4. digitalisation (four guarantee tools), and 5. local currency financing (two guarantee tools).

The first guarantee agreement under the EFSD was signed between the Commission and the Dutch development bank, FMO, in December 2018, and concerned the NASIRA Risk-Sharing Facility, which belongs to the first priority area.
Funded actions

The EFSD is composed of two regional investment mechanisms, the African Investment Platform (AIP) and the Neighbourhood Investment Platform (NIP). These were established in 2017 on the basis of two EU external blending facilities – the Africa Investment Facility (AfIF) and the Neighbourhood Investment Facility (NIF) – whose funds worth €2.6 billion were merged into the EFSD. The combination of blending operations and EFSD guarantee operations are expected to remove bottlenecks to private investment by addressing the risks involved, especially in fragile countries.

The funds of the European Development Fund (EDF) and the European Neighbourhood Instrument are used for the purposes of the EFSD Guarantee Fund; Regulation (EU) 2017/1601 (the EFSD Regulation) sets the minimum amount to be invested in countries eligible under the 11th EDF (€400 million) and in the EU partner countries in the eastern and southern neighbourhoods (€100 million). The regulation further stipulates that the EFSD should operate as a 'one-stop-shop', receiving financing proposals from financial institutions and public or private investors, and delivering a wide range of financial support to eligible investments.

The EFSD Guarantee Fund provides liquidity to compensate, if necessary, losses covered under guarantee agreements. By 2020, the EFSD guarantee is envisaged to reach a total volume of up to €1.5 billion and leverage additional financing by allowing risk-sharing with private investors, international financial institutions and development banks. Depending on the total volume of the EFSD guarantee, it might leverage from an expected €44 billion up to the double of this amount whenever important additional contributions are made by eligible partners, such as EU Member States, European Free Trade Association states, or others.

With regard to the level of provisioning to be reached through endowments to the EFSD, Article 14(5) of the EFSD Regulation sets the provisioning rate at 50 % of the total EFSD guarantee obligations covered by the general budget of the EU. Thus, the corresponding EFSD Guarantee Fund is based on funding worth €750 million (€350 million from the general budget of the EU and €400 million from the 11th EDF).

An initial amount of €275 million was allocated to the EFSD Guarantee Fund from the general budget of the EU for 2017; since then, €25 million has been added to it every year, and it currently totals €350 million for the 2017-2020 period. In 2018, two countries pledged an extra contribution to the Guarantee Fund in cash: the Czech Republic (€300 000) and Estonia (€100 000). Moreover, Germany and Estonia promised €1 million in cash to the NIP, to support a broad range of blended finance investments. The Bill and Melinda Gates Foundation also promised to contribute US$50 million.

According to the Commission's (first) 2017 EFSD operational report, in 2017 the EU agreed to invest nearly €1.3 billion in 52 blending projects in Africa and the European Neighbourhood under the EIP. The EU contribution is expected to trigger around €10.6 billion in public and private investment (24.1 % of the €44 billion target for 2020) after the EFSD's first year of operation.

The report highlighted that around €400 million of EU investments under the EFSD had gone to Neighbourhood Investment Platform countries (22 projects) and almost €900 million to Africa Investment Platform countries (30 projects). The EFSD leveraged investments worth €5 billion and €5.6 billion respectively. The report reflecting the
results for 2018 is expected to be published soon. Figure 1 below compares the state of play in December 2018 with overall EFSD expected investment.

Figure 1 – External investment plan, 2017-2020

Assessment of the EFSD

To date, the above-mentioned operational report is the only available source of assessment. The report merges into one the reports on blended finance operations under the AIP and the NIP, and shows the first approved blending investments as well as the first steps towards implementing the EFSD guarantee. Earlier reports drafted before the launch of the EFSD cover separately the activities of the NIP and the AfIF prior to 2017.

The overall volume of NIF funding decided in 2016 was around €170 million, generating projects worth almost €2 billion, or roughly 1% of the beneficiary countries' public expenditure. Resources allocated to the AfIF amounted to €905 million for the 2015-2016 period. From its launch in 2015 to the end of 2016, the AfIF contributed over €288 million in grants to projects representing a combined investment of over €2.3 billion.

An independent study attempts to temper the strong optimism of the creators of the EFSD, pointing out that 'the multitude of objectives the EFSD intends to promote reflect high expectations for what it can achieve'. The author of the study reminds that external evaluations of previous EU blending activities, as well as a report from the European Court of Auditors (ECA), have noted challenges in demonstrating the added value or additionality of blended finance. He also notes that to date, EU blended finance has primarily served to leverage funding from public development banks rather than private investors.

Another study gives recommendations, based on early EFSD results, on ways to improve the current EIP architecture under the 2021-2027 MFF in order to increase the additionality, development effectiveness, and efficiency of EU-supported external investment. The paper describes three ways in which the new investment framework could be improved: 1. by providing a greater policy steer and increasing competition among counterparts to push development financial institutions beyond 'business as
usual', 2. by earmarking resources for pillars 2 and 3, and clarifying the use of pillars and their mutual links, and 3. by setting clear guidance, fee structures and standardised terms, and strengthening management.14

The EFSD Regulation stipulates that the ECA is to provide an overall assessment of the fund’s activities, and that these are also subject to the discharge procedure.15

While no comprehensive assessment of the EFSD has been presented to date, in the context of the preparation of the MFF 2021-2027 the Commission presented a proposal for a new investment framework for the new Neighbourhood, Development and International Cooperation Instrument (NDICI) for the 2021-2027 period. The EFSD+, which would have a larger geographical scope and more resources than the EFSD, would constitute the new investment framework. Since then, the proposal for an EFSD+ has been under discussion.

Other EU programmes and actions in the same area
Besides the EFSD, several instruments and policies are linked to the EU's external policy: the Guarantee Fund for External Actions (GFEA), the common foreign and security policy (CFSP), the Development Cooperation Instrument (DCI) and the Instrument contributing to Stability and Peace (IcSP).

Guarantee Fund for External Action
The GFEA was set up with the aim to protect the EU budget by covering the risks related to loans and guarantees for loans granted to non-EU countries or for projects executed in non-EU countries. The main goal of the actions backed by the GFEA is to support the increase in growth and jobs, and to improve the business environment in developing countries by strengthening the involvement of the private sector. The GFEA’s budget for the 2014-2020 period is €1 193 million.

Common Foreign and Security Policy
With a budget of €2 339 million, the CFSP funds efforts to preserve peace, prevent conflicts, strengthen international security and ensure the visibility and effectiveness of EU foreign policy. The ultimate objective of EU foreign policy is to support civilian missions, the EU special representatives and measures aimed at non-proliferation and disarmament.

Development Cooperation Instrument
The DCI's financial envelope of €19 662 million is allocated to projects alleviating poverty; fostering sustainable economic, social and environmental development; and supporting democracy, good governance, human rights and international law in recipient countries. Moreover, the instrument is one of the two EU funds for aid to developing countries alongside the EDF, which is outside the EU budget.

Instrument contributing to Stability and Peace
The IcSP finances the EU foreign and development policy in areas, such as crisis response, conflict prevention, peace-building and crisis preparedness, and serves to address global and trans-regional threats. The amount allocated to this instrument for the 2014-2020 period is €2 339 million.
Main references


Endnotes

[i] The EFSD guarantee obligations amount to €1.5 billion. The EU budget finances the EFSD guarantee fund to ensure protection against the risks stemming from these obligations. The EFSD Regulation sets the target amount of the guarantee fund at 50% of the total EU guarantee obligations, i.e. €750 million. According to June 2018 working documents accompanying the EU draft budget for 2019, the total resources programmed over the 2017-2020 period amount to €350 million.

1 Article 9(1)(h) of the EFSD Regulation.
2 Articles 12(5) and 12(6), ibid.
3 Recital 21, ibid.
5 Articles 12(3) and 15 of the EFSD Regulation.
12 ibid., p. 2.
14 ibid. pp. 11-12
15 Article 20, EFSD Regulation.

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